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Media Release

19 August 2015

AmBank Group Recorded Net Profit of RM368.7 million for Q1FY2016

AMMB Holdings Berhad (AmBank Group or the Group) today announced the financial results for the first quarter of financial year ending 31 March 2016 (Q1FY2016).

Q1FY2016 performance[1] highlights :

- Excluding one-off divestment gains in Q1FY2015[2], PATMI (profit after tax and non-controlling interests) increased by 3.1% to RM339.5 million driven by lower provisions and operating expenses
- ROE (return on equity) of 9.3%, ROA (return on assets) at 1.1% and EPS (earnings per share) at 11.3 sen
- CTI (cost-to-income ratio) rose to 50.6% (+7.8%) on lower income which was impacted by cautious consumer spending post-GST implementation and weak business sentiment
- Adjusted customer deposits grew 4.9%, with a stable CASA composition of 21%
- Net loans contracted 1.8% to RM84.1 billion due to the Group's portfolio rebalancing activities, lumpy corporate repayments amidst a backdrop of soft loan appetite. Adjusted LDR (loans-to-deposits ratio) was 84.3% compared to 90.0% in Q1FY2015
- Asset quality was stable with GIL (gross impaired loans) ratio at 1.8% and loan loss coverage at 103.2%, favourable to industry average of 97.5%
- Capital of the aggregated banking entities are above regulatory requirements with CET-1 (common equity tier-1) capital at 10.7%, tier 1 capital at 12.0% and total capital ratio of 16.1%, computed based on Basel III requirements

Divisional performance for Q1FY2016 compared to Q1FY2015

Retail Banking: Focusing on segment play, small business banking and main-bank deposit accounts

Retail Banking's PAT decreased by 3.7% year-on-year (YoY) to RM118.5 million due to: (i) gross loans contracting by 4.6% YoY mainly from continued de-risking activities as we shift towards preferred segments; and (ii) margin compression.

This was partially mitigated by lower expenses through disciplined cost management driven by reduction of personnel costs and lower loan loss allowances in line with improved asset quality.

Our primary loans growth focus was mortgage, which grew 6.7% YoY. Excluding the auto finance segment, gross loans growth was 1.3%. Customer deposits expanded 5.4%, driven by strategic initiatives targeting small businesses and emerging affluent segments.

Retail Banking will continue to focus on segment plays to strengthen its franchise and promote cross-selling opportunities. Our efforts in

[1] All growth percentages computed on year-on-year (yoy) Q1FY2016 vs Q1FY2015 basis unless otherwise stated
[2] Excludes one-off divestment gain and related disposal expenses of AmLife and AmFamily Takaful

building Small Business Banking (SBB) propositions over the course of FY2015 have led to commendable growth since its nationwide launch in September 2014.

Our on-going initiatives to augment growth in SBB and young professional segments include simplified account opening procedures, enhanced approval process and the launch of TRUE banking products (combination of CASA, debit and credit cards). As part of our efforts to grow main-bank deposit accounts, we have introduced the AmBank@work payroll solutions, which has been re-packaged with enhanced features and attractive value propositions.

Together with our insurance division, we aim to grow fee-based income by elevating our bancassurance offerings via establishment of insurance specialists at branches and a line-up of innovative insurance solutions.

Digitalisation is also high on our agenda with the upgrade of our internet and mobile banking platform underway as customers become more technology savvy. Hence, engaging clients through mobile devices and digital applications is a key focus in enhancing our customers' banking experience.

Wholesale Banking: Prioritising growth on higher flow business

Wholesale Banking experienced a soft quarter where PAT declined 12.6% to RM189.2 million. This was attributable to: (i) margin compression; (ii) subdued capital market activities stemming from weak business sentiments; and (iii) lower trading income impacted by unfavourable yield curve movements. However, the impact was partially offset by higher foreign exchange sales capitalizing on volatile USD/MYR exchange rate and personnel cost savings from right sizing programs.

Loans growth was flat YoY notwithstanding higher disbursements, owing to large corporate repayments during the quarter. Deposits was stable YoY although we shied away from the intense rate competition in term deposits.

Our priority in FY2016 is to grow higher flow business (foreign exchange, cash management and trade finance) and build a sustainable income base via higher AUM (asset under management) base.

Our Wholesale Banking business model is making good progress by focusing on strengthening customer relationships, increasing share of customers' wallet and attracting new clients with customised business solutions.

For lending to corporate and commercial sectors, we expect loans growth to gather momentum, banking on a series of marketing efforts and a tie-up with the Corporate Guarantee Corporation.

Insurance: Sustaining premium despite GST impact, steering towards de-tariffication

General Insurance maintained its net earned premium YoY despite implementation of Goods and Services Tax and de-risking of Retail Banking's auto finance loans affecting bancassurance sales. Claim expenses were lower and combined ratio improved to 89.2% (Q1FY2015: 93.3%). PAT declined 5.9% YoY as a result of lower investment income.

The division aims to achieve consistent growth through focusing on top line strategic growth initiatives and preparation for the upcoming de-tariffication in calendar year 2016.

The Group's share in results of the **Life Assurance and Family Takaful** businesses was a loss of RM2.8 million during the quarter caused by lower net premium earned and higher management expenses. Key initiatives to drive growth in these businesses are: (1) brand enhancement and wider distribution; (2) enhance product processes, and (3) drive sales through bancassurance collaboration such as introduction of insurance specialists at branches.

Islamic Banking: Continued growth in financing and deposits

Islamic Banking business forms an integral part of Retail Banking and Wholesale Banking divisions' products and services. The business registered robust double-digit growth in financing and deposits YoY. Income growth was flat owing to margin compression and repositioning of auto finance portfolio. Profit after taxation and zakat increased 7.3% YoY largely attributable to proactive cost management and lower allowances.

QoQ balance sheet contracted amid weak business sentiment and selective lending

Net loans growth hampered by large repayments

Our net lending decreased 2.4% QoQ, mostly attributed to Wholesale Banking (-3.8%), as a result of large repayments during the quarter. Retail Banking's loan portfolio contracted 1.2% QoQ due to auto finance (-2.4%), partially offset by mortgage loans (+2.0%).

Auto Finance: Targeting preferred customer segments

With the aspiration to deliver sustainable growth and risk-adjusted returns, the Group's portfolio re-balancing initiatives is guided by gradual reduction in exposures to less preferred segments and emphasis on growing variable rate loans. To date, we have increased our variable-rate loans from 57% a year ago to 65%, whilst our composition of retail and non-retail loans stood at 54% and 46% respectively.

The Group's CASA composition was relatively stable although deposits declined 2.5% QoQ. While there were some outflows of term deposits in Q1FY2016 due to intense market competition, the liquidity coverage ratio (LCR) for the Group's three banking entities were above 100% as at 30 June 2015, well above regulatory requirements.

Stable asset quality

The Group's gross impaired loan ratio was within guidance at 1.80%, while loan loss coverage remained above 100%.

Weaker non-interest income impacted by subdued investment banking and lending activities

Lower non-interest income

Non-interest income for the quarter was RM347.2 million, constituting 36% of total income. Excluding one-off divestment gain, non-interest income decreased 8.7% YoY impacted by lower fees from lending, securities and investment banking activities as well as drop in contributions from the insurance businesses.

Sound capital levels

Total capital ratio at 16.1%

The Group's capital levels for the aggregated banking entities are above its internal targeted range and Basel III requirements. CET-1 stood at 10.7%, Tier-1 of 12.0% and total capital ratio at 16.1%.

The Group is proactively managing our capital in line with expectations of Basel III Financial Holding Company requirements which come into effect in 2020.

Update on the appointment of Group Managing Director

Datuk Mohamed Azmi Mahmood (Datuk Azmi) was appointed as the Acting Group Managing Director (Acting GMD) on 2 April 2015, following the resignation of our former Group Managing Director, Mr Ashok Ramamurthy. Datuk Azmi has over 34 years of experience in the banking industry and prior to his appointment as the Acting GMD, Datuk Azmi was the Deputy Group Managing Director since 2 April 2012 and the Managing Director of Retail Banking from 2002 to 2012.

The process of identifying the next Group Managing Director is being led by our Group Nomination and Remuneration Committee of the Board. The Board recognises the urgency and significance of finding the appropriate candidate who can lead the Group to the next level of growth, and is in the process of narrowing down a list of suitable candidates.

Prospects for financial year ending 31 March 2016

Malaysia's GDP growth moderate to 4.7%

For calendar year 2015, the Group forecasts a modest annual Gross Domestic Product growth of 4.7% (2014 actual: 6.0%) due to softer consumer demand and lower commodity prices, mitigated by a resilient export sector and continuation in public investments. Private consumption is expected to grow moderately this year as household spending is adapting to the implementation of the Goods and Services Act (GST) on 1 April 2015.

Over the longer term, business and economic conditions are expected to remain challenging against the backdrop of increasingly stringent compliance requirements. In the near to medium-term, the banking sector is expected to experience slower loans growth and narrowing net interest margins while asset quality may come under pressure. On the external front, the recent yuan devaluation, ringgit depreciation and potential hike in US interest rates could lead to further market volatility.

Datuk Azmi concluded, "Despite a soft quarter with slowing economic growth, our Group remains committed to deliver risk-adjusted returns with key initiatives in place to drive sustainable growth, supported by ongoing investments to improve our capabilities and customer experience. We remain focused on our FY2015-2017 strategic agenda to deliver on focused organic growth and continue to leverage on our strategic partnerships, deliver on acquisitions, optimise efficiency and build sustainability."

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